



ARIZONA STATE RETIREMENT SYSTEM

TAXABILITY OF ARIZONA STATE

RETIREMENT SYSTEM PENSION BENEFITS

ASRS - Member Services
PO Box 33910
Phoenix, AZ 85067-3910

Phoenix (602) 240-2000
Tucson (520) 239-3100
Toll-Free (800) 621-3778
TTY/TTD (602) 240-5333
Fax (602) 240-2003

Federal Income Taxes

When a member retires and starts receiving a monthly retirement pension, this pension is considered revenue and becomes reportable as “taxable” income. Members fall under one of three groups:

- ^ **Members who retired before July 1, 1986.** These members were given up to three years to recover their taxed contributions before reporting their retirement pension as taxable income. All retired members in this group should be reporting their entire pension benefit as taxable income.
- ^ **Members who retire after July 1, 1986 but made contributions before July 1, 1986.** These members are required to report a portion of their pension benefit as taxable income.
- ^ **Members who began contributing to ASRS after July 1, 1986.** These members are required to report their entire pension benefit as taxable income upon retirement.

The Arizona State Retirement System sends retired members W-2P (Pension W-2) statements every January. This statement supplies the following information:

- The total amount of the member's pension for the previous year.
- The amount of taxable income (for members retiring after July 1, 1986)

State Income Taxes

In 1989, the Arizona Legislature passed a bill which mandates the taxation of retirees' pensions for the year of 1989 and thereafter. Retirees must report the entire amount of their pension to the Department of Revenue and are required to pay Arizona state taxes on any amount over \$2,500 per year. Retirees living in other states are not required to pay Arizona state tax and the ASRS cannot withhold for any other state's tax liability.

There are two ways members can report federal/state income taxes:

- They may file quarterly estimate forms (contact the IRS for the appropriate forms) and not have any federal or state tax withheld from their monthly pension, or
- They may elect to claim a number of withholding allowances and choose a marital status (federal) and then elect to have Arizona taxes withheld at a percentage rate of federal tax withheld. No state taxes can be withheld if there are no federal taxes withheld. All retired members should complete a form even if they prefer not to have taxes withheld from their monthly pension,

New retirees should return their withholding forms along with their retirement application. Retirees wishing to change their federal or state withholding status may do so at any time by completing and submitting a new Federal and State Pension Withholding form to the ASRS. Persons who fail to complete a withholding form will automatically have federal taxes withheld with a “married with three allowances” status. This rule is mandated by the Internal Revenue Service.